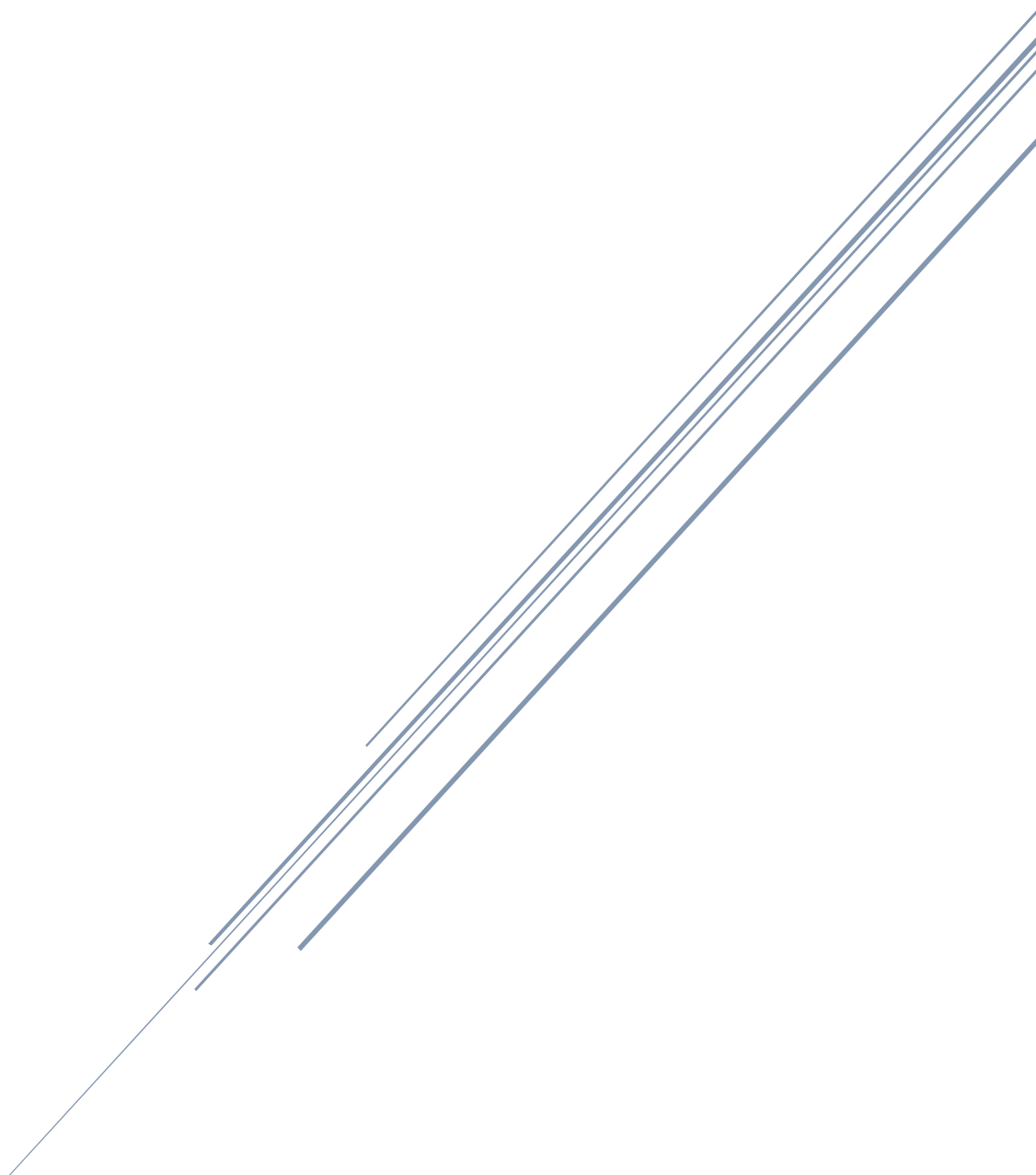


AGRICULTURE INCOME

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Topic: Agriculture Income

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➤ **Definition of Agriculture Income [Section 2 (1A)]:** The term Agricultural Income is defined in three parts under Income Tax Act under section 2(1A)(a), 2(1A)(b), 2(1A)(c) as given below:

✓ Income from leasing out of agricultural land [Section 2(1A)(a)]: Any rent or revenue derived from land which is situated in India and is used for agricultural purposes, shall be considered to be agricultural income.

❖ Example: Mr. X has ten acres of agricultural land in India which is given on lease at a rent of Rs. 200,000. It will be considered to be agricultural income.
If rent is received in kind, still it will be considered to be agricultural income.

❖ Example: Mr. X has leased out ten acres of agricultural land and has received 500 kg. of wheat worth Rs. 4,500. In this case, Rs. 4,500 shall be considered to be his agricultural income.

✚ *If rent to be received is in arrears and accordingly interest has been received, such interest shall not be considered to be agricultural income, rather it is his income under the head other sources.*

✚ *If the agricultural land is situated outside India, income from agricultural land is taxable as income from other sources.*

✓ Income from agricultural operations [Section 2 (1A)(b)]: Any income derived from such land by

i. agriculture; or

ii. the performance by a cultivator or receiver of rent-in-kind (owner of a land) of any process ordinarily employed by a cultivator or receiver of rent-in-kind to render the produce raised or received by him fit to be taken to market; or

iii. The sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him, in respect of which no process has been performed other than a marketing process

✓ Meaning of agriculture:

The term agriculture and agricultural purposes has not been defined under Income Tax Act, accordingly its meaning has been explained in the following case:

CIT v Raja Benoy Kumar Sahas Roy, (1957) 32 ITR 466 (SC)

Agriculture shall include the following two main operations:

i. Basic Operations:

In order to constitute agriculture, there must be some basic operations like expenditure

of human skill and labour upon the land to make it fit for agricultural purposes, like ploughing of land, sowing of seeds, planting and similar kind of operations on the land.

ii. Subsequent Operations:

After carrying out basic operations, there must be subsequent operations like *weeding, digging the soil around the growth, removal of undesirable undergrowth, watering of the plant at regular intervals, using pesticides to protect the crop etc.*

If there are basic and subsequent operations, it will be considered to be agricultural income even if what is produced is not food grains, example:

- ❖ If a person is growing betel, coffee, tea, spices etc. through basic and subsequent operations, it will be agricultural income.
- ❖ If a person is growing commercial crops like cotton, flax, jute, indigo etc. through basic and subsequent operations, it will be considered to be agricultural income.
- ❖ If a person is growing trees like Sal, Seesam, Sangwan etc. for obtaining timber, it will be considered to be agricultural income, provided there are basic and subsequent operations.

✓ Process employed by a cultivator to make the crop fit to be taken to the market (marketing operations /marketing process):

Sometimes a cultivator may not get the ready market to sell the crop in the form in which it was grown, rather some essential processes are required to be carried out to make the crop fit for sale. In such cases, the income shall continue to be agricultural income.

Example: Threshing is done in case of wheat crop to render it fit for sale, similarly, tobacco leaves are dried to make them fit for sale. In all such cases, it will continue to be agricultural income. Other such processes may be winnowing, cleaning, crushing etc.

➤ **Income which is partially agricultural and partially from business (Rule 7):**

- ✓ If agricultural produce can be sold in the market without employing any ordinary process, but still the assessee has employed some process, it will be called industrial process and income shall be computed as per rule 7.
- ✓ It will be presumed that the assessee has sold the agricultural produce to the industrial unit at the market price and agricultural income shall be computed accordingly.
- ✓ While computing the income of industrial unit, such market price shall be considered to be cost of raw material.

- Example: Mr. X is engaged in growing of sugarcane and also has a sugar factory. He has incurred expenses of Rs. 300,000 in connection with growing of sugarcane crop. Entire sugarcane crop was transferred to the industrial unit when market price of sugarcane was Rs. 1,000,000. In this case, agricultural income of Mr. X shall be Rs. 700,000. While computing income of sugar factory, Rs. 1,000,000 shall be debited to profit and loss account as the cost of raw material.

Where agricultural produce is not ordinarily sold in the market in its raw state, and accordingly market value is not available, in that case, the expenses of cultivation and also any other expenses permitted by the Assessing Officer shall be allowed to be debited to profit and loss account of the industrial unit as the cost of raw material.

- Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 50% of sugarcane produce is sold for Rs.10 lacs, and the cost of cultivation of such sugarcane is Rs. 3 lacs. The cost of cultivation of the balance sugarcane (50%) is 3 lacs and the market value of the same is Rs.10 lacs. After incurring Rs. 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for Rs. 25 lacs. Compute B's business income and agricultural income.

Agricultural income = Actual sale of sugarcane + Market value of sugarcane transferred to the manufacturing unit – Cost of cultivation
 = [Rs. 10 lacs + Rs. 10 lacs] – [Rs. 3 lacs + Rs. 3 lacs]
 = Rs. 20 lacs – Rs. 6 lacs
 = Rs. 14 lacs

Business income = Sales – Market value of 50% of sugarcane produce received by the manufacturing unit – Manufacturing expenses
 = Rs. 25 lacs – Rs. 10 lacs – Rs. 1.5 lacs
 = Rs. 13.5 lacs

✓ Computation of income in case of growing and manufacturing of Rubber [Rule 7A]

- Income derived from the sale of centrifuged latex or cenex, manufactured from rubber plants grown by the seller in India shall be computed as if it were income derived from business and 35% of such income shall be deemed to be income liable to tax.

✓ Computation of income from the growing and manufacturing of Coffee [Rule 7B]

- Income derived from the sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax.
- Income derived from the sale of coffee grown and manufactured by the seller in India, with or without mixing of chicory or other flavouring ingredients, shall be computed as if it were income derived from business, and 40% of such income shall be deemed to be income liable to tax.

✓ Computation of income in case of persons Growing and Manufacturing Tea [Rule 8]

- In case of persons who are growing as well as manufacturing tea, income shall be computed as if it was income derived from business and 40% of such income shall be deemed to be income liable to tax.

➤ **Dividends received by a shareholder from the company having agricultural income:**

- ✓ If any shareholder has received dividend from a company having income from agricultural activities, such income shall not be considered to be agricultural income rather it will be considered to be dividend income. However, if the company paying dividend is an Indian company, dividend shall be exempt under section 10(34) and the company has to pay additional income tax under section 115-O @ 15% plus surcharge @ 5% plus EC @ 3%.
- ✓ If it is a foreign company, its agricultural income in India shall also be exempt and if the company has paid dividend, it will be taxable in the hands of the shareholder and the company shall be exempt from additional income tax.

➤ **Share received by a partner out of the profits of the partnership firm having Agricultural Activities:**

- ✓ If any partner has received share from a partnership firm having income from agricultural activities, it will not be considered to be agricultural income in the hands of the partner rather it will be considered to be his income exempt from tax under section 10(2A)
- ✓ Section 10(2A) - In the case of a person being a partner of a firm which is separately assessed as such, his share in the total income of the firm is exempt from tax.

CIT v. R.M. Chidambaram Pillai, (1977) (SC):

If any partner has received any salary or interest on capital from the firm having agricultural activities, it will be considered to be his agricultural income u/s 10(1).

- ✚ Income derived from animal husbandry, fisheries, poultry farming, dairy farming etc. shall not be considered to be agricultural income.
- ✚ Income derived from saplings or seedlings growing in a nursery shall be considered to be agricultural income.
- ✚ Income from sale of agricultural land shall not be considered to be agricultural income rather it will be considered to be capital gain.
- ✚ If tea, rubber or coffee is grown and manufactured outside India and sold in India then 100% income taxable under the head PGBP as business income.

❖ **Example:** Mr. Sony has estates in rubber, tea and coffee. He derives income from them. He has a nursery wherein he grows and sells the plants. For the previous year ending 31.03.2016, he furnishes the following particulars of his income from estates and sale of plants. You are requested to compute the taxable income and tax liability for the assessment year 2016-17:

Growing and manufacturing of rubber	500,000
Sale of coffee grown and cured	350,000
Growing and manufacturing of tea	700,000
Sale of plants from nursery	100,000

He has long term capital gain on the sale of agricultural land in Delhi Rs. 313,500. He has received rent of Rs. 7,000 p.m. by letting out one farm house near Delhi and he has incurred Rs. 20,000 on the repairs of the farm house. He has not paid municipal taxes for the last ten years in connection with farm house and MCD has issued him a notice for selling of farm house, hence he has paid municipal tax of Rs. 90,000.

Business Income

Income from growing and manufacturing of Rubber {Rule 7A}
 [Agricultural income 65% and business income 35%] 175,000
 Income from Coffee grown and cured {Rule 7B}
 [Agricultural income 75% and business income 25%] 87,500
 Income from growing and manufacturing of Tea {Rule 8}
 [Agricultural income 60% and business income 40%] 280,000
 Income from growing and selling of plants

Total **542,500**

Agricultural Income

325,000

262,500

420,000

100,000

1,107,500

Computation of Income under the head House Property:

Gross Annual Value (7,000 x 12):	84,000
Less: Municipal Taxes :	90,000
Net Annual Value :	(6,000)
Less: 30% of NAV u/s 24(a) :	Nil
Less: Interest on capital borrowed u/s 24(b)	Nil
Loss under the head House Property	(6,000)

In this case loss of Rs. 6,000 can be set off either from long term capital gain or from business income, if loss is set off from Long term capital gain, there is tax saving of Rs. 6,000 x 20% = Rs. 1,200 and if it is set off from normal income, there is tax saving of Rs. 6,000 x 30% = Rs. 1,800, hence it is beneficial to set it off from business income hence after set off, business income shall be Rs. 5,42,500 – Rs. 6,000 = 5,36,500

Computation of Total Income

Income under the head Business/Profession	536,500
Income under the head Capital gain (LTCG)	313,500
Gross Total Income	850,000
Less: Deduction under section 80C to 80U	Nil
Total Income	850,000

Computation of Tax Liability

Tax on total of Agricultural + non-agricultural income: (1,107,500 + 536,500)	:	318,200
Tax on 250,000 + agricultural income (250,000 + 1,107,500)	:	<u>232,250</u>
Tax on Normal Income (318,200 – 232,250)	:	85,950
Tax on long term capital gain Rs. 313,500 @ 20% u/s 112:	:	<u>62,700</u>
Tax before education cess	:	148,650
Add: Education cess @ 2%	:	2,973
Add: SHEC @ 1%	:	<u>1,487</u>
Tax Liability	:	153,110
Rounded off u/s 288B	:	153,110

➤ Income from a Farm Building [Section 2(1A)(c)]

- ✓ If any building is in the agricultural field or is very near to the agricultural field and it is being used for storing agricultural produce or for storing agricultural implements or it is being used as dwelling unit by the farmer himself, such building is called farm building and its income shall be *computed as per provisions given under the head house property and income shall be considered to be agricultural income.*
- ✓ Such building must be in the rural area. If it is in the urban area, it should be constructed on the land which has been classified as agricultural land.
- ✓ A farm house shall not be considered to be farm building and income of farm house shall be taxable.

Judicial Decisions

CIT v. B. Gupta (Tea) Private Ltd., (1969) (Cal)

Compensation received from an insurance company on account of damage caused to the crops is agricultural income.

Mustafa Ali Khan (Raja) v. CIT, (1948) (PC)

Income from sale of forest trees, wild grass etc. without involving basic and subsequent operations is not agricultural income.

Venkataswamy Naidu (R.), (1956) (SC)

Income from butter and cheese making is not agricultural income.

Sri Ranga Vilas Ginning & Oil Mills v. CIT, (1982) (Mad)

Income from supplying surplus water to other agriculturists is not agricultural income.

CIT v. New Ambadi Estates Ltd., (1967) (SC)

Harvest crops on purchased land is not agricultural income.

Brihan Maharashtra Sugar Syndicate Ltd v. CIT, (1946) (Bom)

Process of converting sugarcane into jaggery shall not be considered to be ordinary process to make the agricultural produce fit for sale, accordingly income is partly agricultural and partly non-agricultural.

K. Lakshmansa & Co. v CIT, (SC)

If the assessee was growing mulberry leaves, feeding them to silkworms and obtaining silk cocoons, income from sale of silk cocoons would not be agricultural income.

- ❖ Example: Mr. X is employed in MP Agricultural University and getting basic pay Rs. 20,000 p.m. He claims that it is his agricultural income. Discuss.

Income from an agricultural university cannot be considered to be agricultural income rather it is his income under the head salary.

- ❖ **Example:** Mr. X has sold his agricultural land in Delhi and there are long term capital gains of Rs. 1000,000. Mr. X claims it to be his agricultural income. Discuss.

Income from sale of agricultural land cannot be considered to be agricultural income and accordingly it is chargeable to tax under the head capital gains provided it is capital asset as per section 2(14) of Income Tax Act.

- ❖ **Example:** Mr. X holds shares in ABC Ltd., an Indian Company, which is engaged in agricultural operations. He has received dividends of Rs. 120,000 from ABC Ltd. and claims that it is his agricultural income. Discuss.

Dividend from a company which is engaged in agricultural operations cannot be considered to be agricultural income rather it is dividend income of the recipient. However, dividend income is exempt from tax under section 10(34).

➤ **Computation of tax in case of agriculture income:**

- ✓ Partial integration method is applicable only when
 - Agriculture income exceeds Rs. 5000 and
 - Non agriculture income exceeds basic exemption limit (i.e. 250,000/300,000/500,000)(as the case)
- ✓ Benefit of partial integration is not applicable to those assess who fall in flat rate i.e. assessee to whom exemption limit concept is not applicable like firm, company.
- ✓ While applying the Integration method, agriculture income is added in other income i.e. amount remaining after excluding those which is chargeable at special rate i.e. lottery, LTCG and STCG u/s 111A
- ✓ **Tax Shall be calculated in the following manner:**
 - ❖ Step 1: Add agricultural with non-agricultural income and calculate the tax on the aggregate as if it is the total income
 - ❖ Step 2: Compute the tax on [Exemption limit + Agricultural income] as if it is the total income *from the total amount again Exemption shall be given.*
 - ❖ Step 3: [Step 1 – Step 2] will be tax payable
 - ❖ Step 4 : Add Education cess @ 2% and SHEC @ 1%

✚ **Sequence for calculating tax under step 1:**

- | | |
|---|------------|
| a. Charge flat 30% tax on lottery and winning | XXX |
| b. Apply slab rate on [Other Income + Agriculture Income] | XXX |
| c. If any exemption limit remains unexhausted, then deduct that amount LTCG
Charge flat 20% on remaining LTCG | XXX |
| d. If any exemption limit remains unexhausted, then deduct that amount STCG
Charge flat 15% on remaining STCG u/s 111A | XXX |
| Total Tax under Step 1 | <u>XXX</u> |

✚ Non – Residents are not allowed to deduct unexhausted exemption limit from LTCG or STCG u/s 111A as the benefit of exemption limit is available only for general incomes in their case.

✚ Losses from agricultural operations could be carried forward and set off with the agriculture income for the next 8 Assessment Years.

✚ If a person sells processed produce without carrying out any agricultural or processing operations, the income would not be regarded as agricultural income

- **Tax on Sale of Agriculture Land:** An agricultural land does not form part of the definition of a capital asset and hence, there will be no capital gains on the sale of such land. Any other land not forming part of the above will be a capital asset and sale of the same shall attract tax on capital gains subject to Section 54B, which is explained below:
- **Section 54B Capital gain on transfer of land used for agricultural purpose:**
It gives relief to a taxpayer who sells or transfer his agricultural land and acquires another agricultural land from the sale proceeds. *Conditions to be satisfied to claim the benefit of this Section:*
 - i. The assessee must be an individual or a HUF.
 - ii. The agricultural land should have been used for agricultural purposes. It may be a long term asset or a short term asset.
 - iii. It must have been used either by the assessee or his parents for agricultural purposes in at least two years immediately preceding the date on which the transfer of land took place.
 - iv. The assessee should have purchased another land, which is being used for agricultural purposes, within a period of two years from the date of sale.
Note: In case of compulsory acquisition, the period of acquisition of new agricultural land will be determined from the date of receipt of compensation. However, as per Section 10 (37), no capital gain would be chargeable to tax in case of an individual or HUF if agricultural land is compulsorily acquired under any law and the consideration of which is approved by the Central Government or RBI and received on or after 01/04/2004.
 - v. The whole amount of capital gain must be utilised in the purchase of the new agricultural land. If not, the difference between the amount of capital gain and the new asset will be chargeable as capital gains and the tax will be computed accordingly.
 - vi. The new asset purchased should not be sold within a period of three years from the date of acquisition.
 - vii. If sold, the cost of the new asset will be reduced by the amount of capital gain (claimed as exemption under Section 54B) for the purpose of computing tax on capital gains.
 - viii. Where the amount of capital gain is not utilised by the assessee for the purchase of the new asset before the due date of furnishing his return of income, he may deposit it in the Capital Gains Account Scheme (CGAS) of any specified bank.
 - ix. The return of income of the assessee should be accompanied by the proof of such deposit.
 - x. In such a case, the cost of the new asset shall be deemed to be the amount already utilised by the assessee for the purchase of the new asset together with the amount deposited in the CGAS.
 - xi. If the deposited amount is not utilised for the purchase of the new asset within the specified period, then the unutilised amount shall be taxed as income in the year in which the period of two years from the date of sale of the original asset expires.

Summary of Agriculture Income:

Section 2(1A) : Meaning of Agriculture Income (AI)						
(a)		(b)			(c)	
Rent from agricultural land situated in India used for agricultural purpose		Growing of crops from land situated in India. Also saplings in a nursery.			Rent from building situated in the immediate vicinity of agricultural land situated in India and used for agricultural purpose and not situated in urban area. Exception: If let out for purpose other than agriculture then NAI	
		Basic Operation	Yes	Yes		
		Subsequent Operation	Yes	No		
		Whether AI?	Yes	No		
Computation under the head Other Sources		Computation under the head Business			Computation under the head House Property	
S 56 to 59		S 28 to 44D			S 22 to 27	
Rent	XXX	Sale of Crops	XXX		GAV	XXX
Less: Taxes on Land	XXX	Less: All business Expenses	XXX		Less: MT	XXX
Less: Collection Charges	XXX	Salary, Irrigation Expenses, Depreciation			NAV	XXX
OS (AI)	XXX	BI (AI)	XXX		Less: SD 24(a)	XXX
					Less: Interest 24(b)	XXX
					HP (AI)	XXX

Computation of income which is partly agricultural & partly non agricultural			
Rule	Cases	AI	NAI
Rule 7A	Manufacture of rubber	65%	35%
Rule 7B (1)	Sale of coffee grown and cured by seller	75%	25%
Rule 7B (1A)	Sale of coffee grown, cured, roasted and grounded by seller in India with or without mixing chicory or other flavouring ingredients	60%	40%
Rule 8	Growing and manufacturing tea in India	60%	40%

Computation of tax if assessee is earning both AI & NAI (Partial Integration)			
1	The assessee is an Individual or HUF or BOI, or AOP or Artificial Juridical Person	Computation of Tax	
		Tax on (NAI + AI) at slab rate	A
2		Less : Tax on (AI + BE) at slab rate	B
		Tax	A-B
3	Agricultural Income exceeds Rs. 5,000		